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SUBJECT: BOSNIA: DISPUTE OVER FEDERATION TELECOM FIRM  
DEEPENS CROAT-BOSNIAK RIFT

REF: 09 SARAJEVO 1300

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SUMMARY  
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1. (SBU) Appointment of a general manager of the Federation majority-owned telecommunications firm HT Mostar has become a further point of conflict within the Federation. The Bosniak Party of Democratic Action (SDA), along with most other Bosniak and Croat parties, favors reappointment of the current general manager, Stipe Prlic, a Croat. The Croatian Democratic Union (HDZ-BiH), however, has tried to block the reappointment, accusing Prlic of mismanagement. At the root of the issue is a decade-long battle between Prlic and HDZ-BiH leader Dragan Covic for control of HT Mostar's mobile phone subsidiary Eronet. The conflict has contributed to the company's recent declining fortunes and to a deepening rift between SDA and HDZ-BiH. End summary.

ERONET AND HT MOSTAR: HZ-BIH'S TRADITIONAL CASH COW  
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2. (SBU) HDZ-BiH has in the past treated HT Mostar -- and in particular its subsidiary Eronet -- as a cash cow. As Federation Minister of Finance in 1999, Covic helped arrange the transfer of Eronet to three private companies owned by HDZ-BiH interests. Prlic, as HT Mostar's General Manager, challenged the privatization in court and won, arguing that the Federation government had not authorized it. Covic has fought Prlic's reappointment ever since. (Note: Covic's problems continued beyond losing the Eronet privatization case. While serving as the Croat member of the BiH tri-presidency, he was charged with tax evasion and bribery, dismissed in 2005 by High Representative Paddy Ashdown, and sentenced to five years in prison. End note.)

PRLIC REAPPOINTMENT STALLED  
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3. (SBU) On November 4, the Federation government voted to reappoint Prlic. In response, Covic and his party increased their public attacks on him, hoping to pressure Federation Prime Minister Mustafa Mujezinovic -- an SDA member -- and SDA party leader Sulejman Tihic to revoke the reappointment. Backed by Covic's rival for the Croat vote, HDZ 1990 leader Bozo Ljubic, and Bosniak Party for BiH (SBiH) leader Haris Silajdzic, Mujezinovic resisted the pressure. (Comment: Ljubic, playing schoolyard favorites, is likely only supporting Prlic as a way to "stick it" to his natural enemy, Covic, in advance of the general elections. End comment.) However, at the December 9 session of HT Mostar's supervisory board, the three members associated with Covic's party blocked final board approval of Prlic's appointment. In response, Federation Deputy PM Gavrilko Grahovac of SBiH has threatened that the government will appoint a new board in order to implement the decision. For now, the situation remains at a stalemate.

HT MOSTAR LOSING GROUND  
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4. (U) The three telecom companies in BiH serve territories largely defined along ethnic lines, with HT Mostar effectively having a monopoly on land-line service in majority Croat areas. In fact, the company has close ties to Croatia, with Croatia-based provider HT Zagreb holding 39 percent of its shares.

5. (SBU) There is greater competition, however, in cellular service, also divided among three ethnically-based companies. After several years of impressive growth, Eronet saw declining market share in 2009. Covic and others in his party attribute this decrease to Prlic's mismanagement. Prlic, however, argues that two factors are responsible for the company's slowdown. First, he asserts, the 2006 privatization of Republika Srpska's provider RS Telekom (now 65%-owned by the Serbian national phone company), has created

an uneven playing field. Operating as a private company in Bosnia, RS Telekom's mobile subsidiary M:Tel has been freed of regulatory requirements that continue to restrict its two competitors. (Note: The Communications Regulatory Authority has refuted this assertion, claiming regulations have been created to ensure a level playing field among cellular phone providers. End note.) Whether Prlic is correct, or whether its success is due to better marketing and customer service, M:Tel has been making rapid inroads into the mobile market in both RS and the Federation. Second, Prlic reasonably argues, the stalemate over his own reappointment has prevented HT

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Mostar and Eronet from making capital investment decisions that would have enabled them to compete more effectively.

COMMENT

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16. (SBU) We expect that Prlic will eventually overcome the obstacles to his reappointment. Meanwhile, although HT Mostar remains a potential candidate for privatization -- along with other planned privatizations in the Federation that have failed to materialize in the last several years -- given the dispute between Federation politicians on this issue, we don't expect HT Mostar to be privatized any time soon.

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